

Message Text

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43

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8967

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY DOHA POUCH

C O N F I D E N T I A L KUWAIT 0880

DEPT PASS EXIMBANK

EO 11652: GDS

TAGS: PFOR, ETRD, ENRG, EG, XF

SUBJ: SUMED PIPELINE PROBLEMS

SUMMARY: ACCORDING ROGER TAMRAZ SEVERAL POTENTIALLY SERIOUS PROBLEMS REGARDING SUMED PIPELINE PROJECT EMERGING WHICH HE FEARS COULD RAISE COSTS SUBSTANTIALLY, REDUCE LEVEL US EXPORTS, AND CAUSE BICKERING AMONG SUMED OWNERS. IN ADDITION HE CONCERNED OVER DAMAGE THAT COULD BE DONE TO THOSE ATTEMPTI O ENCOURAGE CLOSER US-ARAB COOPERATION, PARTICULARLY IN COMMERCIAL SECTOR. PROBLEM STEMS FROM RAPIDLY RISING SUPPLY COSTS AND CONCOMITANT BECHTEL INABILITY REMAIN WITHIN TERMS OF MINIMAL AGREEMENT.

AS OF NOW BECHTEL WILL BE LIMITED TO DESIGN ROLE. TAMRAZ HAS SOME IDEAS ON HOW TO OVERCOME PROBLEM BUT HE THINKGS OTHERS WITH INTEREST IN PROJECT, INCLUDING USG, SHOULD BE AWARE OF DEVELOPING SITUATION. END SUMMARY

1. ROGER TAMRAZ OF KIDDER, PEABODY AT HIS REQUEST ASKED TO SEE ECONOFF MARCH 5. AMONG SUBJECT HE WANTED TO DISCUSS WAS STATUS SUMED PIPELINE PROJECT. TAMRAZ WAS PRETTY DEJECTED HAVING LEARNED
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THAT WITHIN PREVIOUS 48 HOURS ROLE OF BECHTEL HAD ALTERED

CONSIDERABLY AS HAD THAT OF FIVE NATION BOARD. TAMRAZ CONCERNED OVER IMPLICATIONS THIS DEVELOPMENT.

2. ACCORDING TO TAMRAZ UNDER ORIGINAL AGREEMENT BECHTEL, FOR LUMP-SUM PAYMENT OF \$345 MILLION, WOULD PERFORM TURN-KEY CONTRACT INCLUDING PURCHASING. FIVE NATION BOARD OF DIRECTORS WOULD OVERSEE BECHTEL OPERATION, SERVING AS A CHECK AND BALANCE. HOWEVER, BECAUSE OF RAPIDLY RISING SUPPLY COSTS, BECHTEL NO LONGER BELIEVES IT CAN DO JOB UNDER ORIGINAL CONTRACT TERMS. IT NOW WANTS COST PLUS CONTRACT. IN LAST FEW DAYS, HOWEVER, BOARD HAS DECIDED IT WOULD HANDLE PURCHASES, ACCOUNTING FOR APPROXIMATELY \$300 MILLION, AND BECHTEL WOULD DO ONLY DESIGN WORK.

3. TAMRAZ CONCERNED THAT THIS APPROACH WOULD REMOVE CHECK AND BALANCE FEATURE OF ORIGINAL ARRANGEMENT. MOREOVER HE FEARS THAT SUPPLIERS WOULD ATTEMPT SEEK FAVORS AND THE LIKE FROM BOARD MEMBERS WHICH AS GROUP MADE UP OF REPRESENTATIVES OF FIVE SEPARATE COUNTRIES WOULD BE UNWIELDY AND SUSCEPTIBLE TO PRESSURES. HE AYEREFOR FORESEES EVEN HIGHER ESCALATION IN SUPPLY PRICES AND OVERALL PROJECT COSTS AND EVENTUAL BACKBITING AND RE-CRIMINATIONS AMONG BOARD MEMBERS. BECHTEL, BETTER ABLE INSIST ON THOROUGHLY HONEST AND PROFESSIONAL DEALING AND THEREFORE ABLE NEUTRALIZE SUCH TJNDS. BUT WITHOUT BECHTEL IN THIS ROLE, PROBLEMS WILL ARISE AND CHANCES ARE LEVEL US EXPORTS WILL DIMINISH.

4. ACCORDING TAMRAZ BECHTEL HAS NOT BEEN NOTABLY IMAGINITIVE OR FLEXIBLE. ALTHOUGH IT WANTS COST PLUS CONTRACT COMPANY BELIEVES IT CAN LIVE WITH REDUCED ROLE AS DESIGN CONSULTANT. AT SAME TIME, ONE OF KUWAITI BOARD MEMBERS, FAWZI MUSAED AL-SALEH, PRESIDENT KUWAIT METAL PIPES COMPANY, ACCORDING TO TAMRA, IS BEING PARTICULARLY DIFFICULT IN ATTEMPTING PUSH BECHTEL ASIDE PARTLY IN EFFORT CAPITALIZE ON ENHANCED ROLE SUCH A DEVELOPMENT WOULD GIVE SALEH.

5. IN SHORT, TAMRAZ BELIEVES THAT IF BECHTEL'S ROLE IS SUBSTANTIALLY REDUCED, TRADITIONAL BYZANTINE DEALINGS AMONG UNWIELDY, NON-EXPERT FIVE NATION BOARD MEMBERS COULD LEAD TO HOST OF PROBLEMS INCLUDING UNNECESSARILY HIGHER COSTS.
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AWARE OF BOTH ECONOMIC AND POLITICAL RAMIFICATIONS OF SUMED PROJECT AMONG ARABS AND BETWEEN ARABS AND US AND PARTICULARLY CONSIDERING ROLE TOP USG OFFICIALS HAVE PLAYED IN BRING SUMED PROJECT TO PRESENT POINT, TAMRAZ DEEPLY CONCERNED OVER WAY IT LOOKS PROJECT DRIFTING.

6. HE DOES HAVE ONE PRACTICAL SUGGESTION, VIZ., THAT SUMED BOARD BE AUTHORIZED TO BUY PIPE AND PLATE, WHICH SHOULD COST

AROUND \$150 MILLION. THIS WILL KEEP KUWAIT METAL PIPE HAPPY AND SINCE THESE LARGE STANDARD ITEMS, THERE LITTLE ROOM FOR TOO MUCH PADDING. BECHTEL WOULD BE CHARGED WITH BUYING SMALL (\$5-10 MILLION) ITEMS. IT IS WITH THIS GROUP BECHTEL ROLE COULD HELP AVOID PRICE PADDING AND RELATED PROBLEMS. IN SHORT, TAMRAZ HAS AN IDEA FOR A COMPROMISE. PRESUMABLY HE WILL BE TRYING SELL THIS IDEA TO TOP KUWAITI AND OTHER OFFICIALS. HE CLAIMS KUWAIT MINISTER ELECTRICITY AND WATER ABDULLA ALGHANIM WHO RECENTLY LEFT FOR US IS ON HIS WAY TO SAN FRANCISCO FOR DISCUSSIONS WITH BECHTEL ON LATTER'S ROLE IN SUMED PROJECT.

7. TAMRAZ DID NOT CALL FOR ANY USG ACTION AT THIS POINT BUT HE BELIEVED WE SHOULD BE AWARE OF WHAT IS GOING ON. HE DID SAY THAT SHOULD OPPORTUNITY ARISE IT MIGHT BE USEFUL FOR THOSE OF US IN CONTACT WITH INFLUENTIAL OFFICIALS TO URGE THEM TO DEAL WITH PROJECT ON HIGH LEVEL. PROJECT TOO BIG AND IMPORTANT TO APPLY SOUK METHODS AND MENTALITY TO IT.

8. COMMENT: WHILE WE NOT ABLE COMMENT ON TAMRAZ'S DESCRIPTION OF SUMED SITUATION, WE SHARE HIS CONCERN OVER POTENTIALLY NEGATIVE FALL-OUT SHOULD PROJECT GET OFF ON WRONG TRACK. FACT IS, IN KUWAIT AT LEAST, SUMED IS HIGHLY VISIBLE PROJECT WHICH SYMBOLIZES INTER-ARAB COOPERATION, US-ARAB COOPERATION AND GREAT POTENTIAL OF US TECHNOLOGY AND EXPERTISE BEING PUT TO WORK IN ARAB WORLD WITH HELP ARAB MONEY. FACT THAT PROBLEMS ARE DUE TO HONEST DIFFERENCES, UNCONTROLLABLE INTERNATIONAL ECONOMIC FACTORS OR PROBLEMS OF MEMBERS OF FIVE NATION BOARD WOULD NOT NECESSARILY PREVENT DAMAGE TO US (GOVERNMENT AND BUSINESS) IMAGE SHOULD PROJECT BECOME MIRED IN CONTROVERSY. STOLTZFUS

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